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TAGS: EAGR EAID ECON YM  
SUBJECT: YEMEN'S WHEAT NIGHTMARE

¶1. SUMMARY: The ROYG has penned a plan to increase its control and regulation of the wheat sector in Yemen while simultaneously creating a company owned in part by the ROYG with the objective of importing 50 percent of Yemen's wheat needs. The US Wheat Associates, Inc. advised ROYG against the plan and told them to wake up and smell the market. END SUMMARY

YEMEN'S WORST NIGHTMARE ?

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¶2. On September 3, 2007 Hesham Hassanein, Special Projects Manager, Middle East and East Africa for U.S. Wheat Associates Inc., met with the ROYG Minister of Industry and Trade, Yahya al-Mutawakil, to discuss the price of wheat. The Minister told him that the ROYG's worst nightmare is not high prices but that one day they will "wake up and have no wheat and no bread in Yemen." He said that the ROYG is looking at all options and that they have very little trust in the private sector to maintain an adequate supply of wheat for the nation. NOTE: Hassanein told ComOff that earlier in the week, private wheat traders told him that they have no trust in the ROYG and that they are worried that the government will try to set prices or "take" their wheat supplies. END NOTE. For that reason, Minister al-Mutawakil told Hassanein that the government is considering a plan to enter the market and buy wheat, approximately 500K Metric Tons (MT). Hassanein warned that this might only serve to drive prices higher in the market. He explained that news in the market of a government buying large amounts of wheat usually moves the market up.

¶3. Hassanein told the Minister that the U.S. Wheat Associates is impressed by the skill and savvy of the wheat traders in Yemen. Hassanein told the Minister that in his professional opinion the traders are not hoarding supplies or gouging prices. He explained that the price rise is a reflection of the replacement cost of wheat as supplies purchased at earlier lower costs move to market. He also explained that the traders' supply contracts were adequate and well placed. NOTE. The Hayl Saeed Anam Group recently set a contract for 250K MT over the next three months. Spacing the contracts out over time increases the likelihood that a trader is not locked into a long term contract at high prices. By ordering in quarterly increments, the chances are improved that wheat may be purchased later when the prices go down, thereby decreasing the cost of movement to market. END NOTE. Hassanein suggested that the ROYG seek to work with the traders and not attempt to compete with them. He explained that the current prices should attract more production which will in turn bring the prices down in the future. The Minister told him that the Ministry of Planning and International Cooperation (MOPIC) has a plan to present to the U.S. Wheat Associates Regional Office in Cairo.

Hassanein told ComOff that there may soon be "too many chefs in the kitchen", fighting over wheat. NOTE: The power point presentation that Hassanein gave to the Minister may be found at [www.USWheat.org](http://www.USWheat.org). END NOTE.

CHEF NUMBER TWO, MOPIC HAS A PLAN

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¶4. On September 6, 2007 CommOff spoke to Dick Prior, Regional Vice President, Middle East and East Africa, U.S. Wheat Associates, Inc.. Prior told ComOff that Ali Saif Hassan, a consultant hired by ROYG MOPIC, had contacted him about a proposal by the ROYG entitled "Wheat Importation Mechanism." This is a three point plan in which ROYG appears to take control of the private sector via regulation of contract terms and surprise inspections of storage facilities while forming its own partnership company with private investors with the objective of importing at least 50 percent of Yemen's wheat needs. Prior replied to Hassan that the U.S. Wheat Associates does not see this as a solution because the private sector in Yemen is performing well under the circumstances in the market and the government-formed company will lack the same level of experience. He added that if the government gives this new company special provisions it will "break the backs" of the current traders. Prior stated that the privatization process in the wheat sector in Yemen seems to be working well and this type of "company" will serve only to interfere in that process and create long range problems. Prior also explained to Hassan, as Hassanein explained to Minister al-Mutawakil, that the problem of prices and apparent wheat shortages is likely to be short-lived because high prices tend to attract more production. By the time this ROYG "company" is formed the problems may have dissipated. Prior told CommOff that U.S. Wheat Associates expects to see "some pressure ease within the next 1-2 months but prices moving upward until next May." He added, however, that the expected production increase will bring them down again. NOTE: A copy of this ROYG Proposal is available through Yemen Desk Officer Natasha Franceschi. END NOTE.

AN ALTERNATIVE PLAN FROM US WHEAT

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¶5. In his response to Hassan, Prior suggested that if ROYG feels compelled to act in some way, they should work with the current traders in Yemen to find a solution. Prior suggested ROYG meet with the traders and agree on some formula connected to the market price whereby the government can hold prices down and traders will not lose money. He suggested a direct subsidy, tax incentive or other incentive. He suggested as an example a plan in which a Yemeni trader brings in a vessel of Wheat at a cost of \$380/MT (invoice value) and his profit is 10 percent (or whatever is fair). The total cost then is \$420/MT - but the maximum market price set by the ROYG is \$250/MT. The trader can then sell at \$250 but claim a \$170 subsidy from the ROYG. This continues until the costs are less than the set acceptable price. Prior believes that such an arrangement would only need to last 8-10 months and would not interfere in the free market forces while ensuring a supply for the country. He added that the system could also be organized in such a way that the beneficiaries of these subsidized prices are the very poor who cannot live without such assistance, creating a sort of welfare system that does not interrupt private business or the supply of wheat to Yemen.

COMMENT: WAKE UP AND GO BACK TO SLEEP

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¶6. While sympathetic to the pressure that the international increase in the price of wheat is placing on the ROYG, the U.S. Wheat Associates does not believe that the situation is likely to continue and may in fact reverse itself as higher prices lead to more production. The real nightmare for Yemen will be the Government's ill-conceived and ill-advised foray

into the business of wheat importation and increased regulation and control over the wheat sector. The wheat sector is one of the few well-functioning fairly privatized sectors in Yemen's economy. The U.S. Wheat Associates alternative suggestion (if in fact ROYG feels compelled to intervene) to work with the traders and possibly go to a temporary subsidy system is not ideal but it is preferable, for the sake of the free market principles currently at work in the sector.

¶7. There is already some indication that ROYG may be taking the advice of the U.S. Wheat Associates to heart. In a recent phone call with ADCM Mike Sarhan, Minister al-Mutawakil stated that the ROYG is approaching the problem as a food security issue. ROYG is considering the option of creating a safety net system by engaging in a one time purchase of wheat in an amount adequate to cover the needs of the nation for several months. They understand that stockpiling wheat may enable them to reduce or prevent wide price fluctuations in the domestic market. All other options, however, are still on the table. Post will continue to monitor the situation. END COMMENT.

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